

# Prices Of Internal Transfer Based On Activities And The Role To Evaluate The Profit Centers' Performance

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## Abstract

The purpose of the research is to clarify methods for using activities based on activities to determine internal transfer prices in economic units and to show the value of internal transfer rates in evaluating profitability centers. It also aims to show the impact of applying internal transfer rates based on activities in increasing the accuracy of costs and giving more detailed information and its reflection on If the use of internal transfer rates based on activities would improve the performance evaluation of the economic unit in the study sample, then that would be a correct representation of the evaluation of profitability, and that was the research challenge. Among the businesses connected to the Ministry of Industry is Leather Industries (research sample).The study came to a number of conclusions, the most significant of which were: (The application of the ABC system in the small tanning center in the laboratory, the sample of the research provided a fair product cost for the center's products due to the identification and analysis of the center's activities and the diagnosis of those activities that add value and those that do not add value and on it each activity. Due to the managers of profitability centers' adoption of the basis of activities, it bears the costs it deserves, assisting in the determination of a transfer price based on a fair college cost. As a result, these managers are better able to make informed decisions and assess the performance of these centers.The research produced a number of recommendations, the most crucial of which was that Iraqi economic units, particularly the research sample laboratory, adopt the proper transfer price policy in line with the nature of their activity and products, and use transfer prices as a basis for transferring products to carry out internal transfers between the company's sectors and in a way that contributes to evaluating the performance of those sectors.

## I. INTRODUCTION

Use of the activity-based costing approach (ABC), which provides specific information for each activity and is more accurate in allocating indirect costs, has become crucial. This method aids management in removing needless activities carried by the product, which will then be reflected in its cost.

The administration's requirement for a periodic and ongoing evaluation of the numerous activities carried out by these units to ascertain the efficacy and sufficiency of their performance has caused the economic units to place a high

value about performance evaluation. constant changes, particularly in relation to The activity-based costing system appeared to be more effective by allocating and dividing indirect expenses and concentrating these systems on the financial performance of those centers or departments in the economic unit.In addition to other benefits enjoyed by the system, other techniques have improved its effectiveness in lowering costs for goods and services by doing away with pointless activities that do not add value. This helps the system achieve the goals of the responsibility accounting system by

evaluating the performance of responsibility centers in a more appropriate and objective way.

### **The first topic: research methodology**

#### **First: the research problem**

The research issue is centered on the weak use of industrial economic units for an appropriate method of calculating transfer prices for transferred products, as well as the weakening of the adoption of internal transfer prices to assess the performance of profit centers and their dependence on cost prices. As a result, the issue can be expressed as a series of questions, namely:

1. Do managers have guidance on how to select the best approach for pricing products when they are transferred between internal departments?
2. Does the base of activities play a part in establishing internal transfer prices inside the economic unit to assess profitability centres?

#### **Second: Research objectives**

The research has several objectives; however the following are the most crucial ones:

1. An explanation of the notion, significance, traits, and function of internal transfer prices in assessing profitability centres.
2. Describe how to calculate internal transfer prices in economic units by using the basis of activities.
3. A description of the impact of using internal transfer rates based on activities that increase cost accuracy and provide more specific information, as well as how this has an impact on how accurately profitability centres are evaluated.

#### **Third: The importance of research**

The research's significance stems from the significant contribution that profitability centres

make to economic units' achievement of their goals, which necessitates the use of modern technologies in the contemporary business environment, including the use of the basis of activities in determining internal transfer prices because it is one of the modern methods and appropriate to the nature of the work done by economic units in evaluating centres profitability.

#### **Fourth: the research hypothesis**

The research is based on a main hypothesis that: The use of internal transfer rates based on activities in evaluating the performance of profit centers gives more accurate and detailed information about the reality of these centers.

### **The second topic: a theoretical introduction to performance evaluation using activity-based transfer rates**

#### **First: the concept of transfer rates**

Transfer prices have been discussed and defined by numerous authors and scholars, each according to his or her point of view, as follows:

The price stated for products and services transferred through profit centres or profit centres is the definition of the transfer price. Only when there are anticipated transfers of commodities and services between centres is this pricing offered.

It was described as "the price charged for a component by the selling department to the purchasing department in the same economic unit" by Hansen & Mowen in 2007: 440.

The prices imposed on items produced by one department and transferred to another department are also referred to as transfer prices. These prices have an impact on both the receiving division's expenses and the revenue of the transferred division. As a result, both departments' profitability, return on profitability

and performance evaluation will suffer (Limina Guan. et al, 2009: 156).

As the price that is considered revenue for one center is considered a cost to the other center, it was defined as the price at which a responsibility center (profit or investment center) transfers its products or services to another responsibility center within the same economic unit to finish their manufacture or use in another product (Al-Galabi, 2019: 68).

"The value or amount documented in the records of an economic unit when one organizational unit sells (transfers) a good or service to another organizational unit," according to Lanen et al. (2011:549).

It was further described as the basis for the transfer or exchange of commodities and services between organizational sub-units. These pricing are internal. Undoubtedly, the volume of transactions or activities exposed to exchange and dealing between parties determines the significance of these transfer prices and the extent to which the economic unit needs them. When measuring the performance of the divisions of this economic unit, the impact of transfer prices is minimal if the size of these transfers is minor (Osama, 2014: 68).

The previous definitions make it clear why transfer prices should be used, how they affect departmental revenues and costs, and how they play a part in measuring and evaluating departmental performance, cutting waste and losses, increasing profitability, and strengthening the competitive position of the economic unit.

### **Secondly: the importance of transfer prices**

The impact of the transfer price on the financial outcomes of the selling and buying divisions as well as the economic unit gives this price its significance. All sales and purchases, whether

internal or external, have an impact on the department's profits rather than the economic unit's profits since the managers of the selling and buying departments are assessed based on the department's earnings rather than the economic unit's profits (Lanen, et al., 2011 :550). And these prices have an impact on the revenues of the department making the transfer as well as the costs of the department receiving it. These revenues and costs are crucial components in determining typically, profit and return on profitability are used to assess a department's performance.

### **Third: Methods for determining transfer prices**

In terms of actual application, there are multiple ways to calculate transfer prices, and which approach is used depends on the administration's goals, the various production pricing schemes, and the benefits each method offers. The following methods will be discussed : (Al Kabarati, 2001: 38)

#### **I- Transfer rates based on market rates**

The main issue that an economic unit may encounter when using market prices as a basis for determining transfer prices is that some goods or services subject to transfer and internal exchange may have unique characteristics that make any attempt to determine a market price for these goods or services impossible. An external price is merely a rough estimate of these premium and exceptional goods and services' market value (Mohammed, 2018: 31). The market price is simple to determine because it is readily available, it can result in the best decisions, and it also does not cause a conflict with the motivational performance criteria (goal compliance, administrative effort, and independence). However, there are some considerations that must be made when selecting the market price, and they are as follows : (Al Kabarati, 2001: 39)

- The seller is free to choose between selling and transferring.
- There should be an arbitration committee for repeated involvement, to resolve conflicts across departments.
- Pricing items based on the market price between internal divisions.

If the market price of the goods and services available for exchange and transfer between sections of the internal economic unit exists, it must be adjusted before being used as an internal transfer price to reflect the internal circumstances and circumstances surrounding the transfer of these goods and services between sections of the economic unit.

Other factors, such as specialized production requirements, storage costs, and others, considered when figuring out the adjusted market price.

The market price is typically chosen and established for the closest alternative commodity actually offered in the market, and this price is then adjusted to reflect any differences in the characteristics of the commodity subject of internal exchange from that alternative selected, if there is no market price for the good or service subject of exchange due to its distinction and uniqueness (Abu Nasser, 2005: 25).

## **2- Transfer rates based on cost**

It is more reasonable to use the cost basis when pricing transferred products when there is no external market for intermediate goods that are traded internally inside an economic unit. The cost is the basis for measuring the effectiveness of the performance of the selling department, which necessitates treating the department in this case as a cost centre only, and the cost includes many concepts like marginal or transaction costs. The transfer price is used based on cost in economic units that follow the central method in managing their operations

additional variable cost. The following is a description of each of them, along with the normal total cost or actual:

### **a. Variable or marginal cost method**

They believe that production should be sold when its marginal cost equals its revenue, and one benefit of variable cost is that it serves as a substitute for the market price when there is no market price for the transferred product. Another benefit of variable cost is that it causes the purchasing departments' activity to increase, which in turn boosts the activity of the selling division. Its drawbacks include the competition between managers and the tendency for fixed costs to rise while variable costs in the selling departments tend to decrease with time. Since they believe that production should be sold when its marginal cost equals its revenue, they believe that variable cost is an acceptable approximation of marginal cost. One of the benefits of variable cost is that it serves as a substitute for the market price when there is no market price for the transferred product. Another benefit of variable cost is that it increases the activity of the purchasing departments, which in turn increases the activity of the selling division. Its drawbacks include the tendency for fixed costs to rise while variable costs in selling departments tend to drop with time, as well as an increase in conflict between purchasing department and selling department managers (Osama, 2014: 29).

### **b- The total cost method**

In the absence of market pricing, the total, real, or historical cost is the most widely used basis for establishing transfer prices since it can be fairly easily and reliably determined as it is actually accessible. And that all direct, indirect, variable, and fixed costs should be included in this cost.

### **c- Variable cost plus a specific amount method**

In other words, the return on the contribution to the economic unit is distributed in its entirety according to one basis or another on the productive centres. This method is applied on the basis of adding a specific amount or percentage to the variable costs and it does not conflict with the objectives of determining the ideal level of activity and achieving the economic unit's maximum profits. Overall, because any profit centre that engages in joint business would strive to maximize its transactions with other profit centres (Al-Nuaimi, 2017: 65).

#### **d - cost plus a certain profit**

The whole cost technique, which emphasizes the standard (or actual) cost along with a specific profit, has been employed since the market price has a number of limitations that prevent it from being utilized as a transfer price, or because market prices are occasionally unavailable. When the intermediate product has specifications that are different from what is currently on the market, this strategy is distinguished by its blending of market price and cost by creating a synthetic or industrial price as a good practical alternative to the market price.

#### **e- Standard cost**

Using standard expenses as a basis for transfer price determination would be based solely on metrics that represent the effectiveness of the marketing department. Furthermore, that by employing the standard cost method, inefficiencies would be identified early and prevented from increasing the cost of the final product, which would then be passed later from the seller's division to the buyer's division.

### **3. Negotiated transfer pricing**

Prices reached by haggling between a buyer and a seller are referred to as negotiation prices. The price of each department's product, whether it be a good or a service, is completely up for

negotiation and determination. Likewise, each department is totally free to access overseas markets, either to sell its goods or to meet its needs, until this price is agreed upon. Negotiating pricing has several benefits, one of which is that they One of its drawbacks is that it takes up the time of managers involved in the negotiation process, especially if the volume of agreements is high, and it encourages autonomy in decision-making and has a big impact on inspiring department managers(Asim, 2015: 25).

### **4. Managed Transfer pricing**

These prices are often used by economic units when they have specific special transactions that occur infrequently, but they do not reflect economic considerations, as in the case of market-based or cost-based transfer prices, nor do they reflect the cost of the transaction. They are the transfer prices that are established from a specific manager, for example, they may be based on the market price minus a certain percentage or based on the total cost plus a certain percentage(Asim, 2015: 96).

### **5-Double pricing system**

According to this approach, the products are priced at the variable cost when they are transferred to the buying department, and the selling department is free to sell at the going rate or the standard cost plus a portion of the profits. It is also known as the cost out and the inbound market.

Transfer pricing are used for different things in each segment (buyer and seller). With full knowledge of the various total costs, the buyer section can base its purchasing decisions on the transfer price as well as determine the selling price of finished goods. Conversely, the seller section can base its performance evaluation of the department on the transfer price(Al Kabarati, 2001: 47).

As can be seen from the following, there are several transfer prices, and each of these prices has specific terms that can be used when appropriate. Each has benefits and drawbacks of its own. Each economic entity is free to set prices that are appropriate for its business operations and product types.

#### **Fourth: Transfer prices using the activity-based costing system**

Due to the intensity of competition, management men began to question the reliability of conventional systems for calculating costs in the areas of product design, manufacture, and marketing. This allowed them to make more informed decisions, especially in the field of marketing, as a result of economic development, the rise in competition, the variety of product types, scientific and technological development, and the failure of traditional systems to accurately calculate the cost of the product. This is due to the fact that traditional methods frequently mislead how the cost of a good or service is recorded as a result of incorrect assignments. Products with great demand are transported at an excessive expense, and high prices are subsequently set for these goods. The same is true for low-volume production, which is charged at a lower cost than necessary and subsequently priced at cheap levels, regardless of how sophisticated or basic the product is (Hilton, 2018: 173).

The management will therefore be unable to make correct and unbiased decisions regarding the internal transfer rates due to the inaccurate cost distribution.

Beginning in the 1980s, a technique for accurately estimating costs based on the notion of activities rather than cost centres emerged. This technique, known as the Activity Base Costing (ABC) method, provides information on costs that aids management in the production and sale of various products from which

management can benefit. Horngren believed it to be one of the best instruments for improving the cost system by focusing on activities as major cost objects and using the costs of these activities as a basis for assigning costs. From this information, pricing decisions and deciding the product mix can be made. The idea of activity-based pricing, also known as the use of activity-based costs for transfer prices, first emerged in order to make the pricing methodology for transferred items more equitable. Centers and how to calculate costs in the application now that activity-based cost estimations can be used as a transfer pricing mechanism. Identifying the annual fixed fraction of the costs has various benefits for control and motivation.

#### **The third topic: the use of internal transfer pricing based on activities in evaluating the performance of profit centers in the General Company for Leather Industries**

##### **First: A brief history of the General Company for Leather Industries**

The General Company for Leather in Kufa and the Bata Factory, both founded in 1932, were combined to form the Bata General Company, which was then combined in 1976 with the National Tannery Company, also founded in 1945, to create the General Establishment for Leather Industries, one of the Formations of the Ministry of Industry and Minerals. The General Company for Leather Industries was established in 1970 because of this merger.

According to the provisions of Article 40 of the aforementioned law, the General Establishment for Leather Industries was converted into a public company under the Companies Law No. (22) of 1989 under the name of the General Company for Leather Industries, with a capital of (50,000,000) fifty million dinars (Iraqi facts, No. 3741 in 28 /9/89). and the capital was

increased by Resolution No. (70) on 15/5/1999 to (1,520,000,000) one billion five hundred twenty million dinars; it was not changed after that until the time of compiling the research; and in 2015, the firm amalgamated with six other linked public enterprises. According to Ministerial Order No. (411/24/53469) on December 17, 2015, the General Company for Textile and Leather Industries/Leather Factory, which is one of the companies under the Ministry of Industry and Minerals, was to be named to the Ministry of Industry (cotton, handmade carpets, textiles, ready-made clothes, woolen, textile). The business is a separate legal entity with its own financial and administrative operations, and its board of directors has

adopted a unique financial and accounting system that uses the unified accounting system.

### **Second: Transfer prices determined according to costs based on activities**

The ABC system will be applied to the transfer price due to the accuracy of the information provided by this system, and this will help the center managers in evaluating the activities of each center because the pricing of intermediate and transferred products between these centers is based on sound foundations, and an attempt to calculate the cost of the product. The basis of the activity is on Baghdad Factory No. (7), as it is characterized by the following.

Table (1) Stages of work and number of operators

no	sequence	Number of employees
1.	separation	6
2.	sewing	Engineer 1
3.	Sewing worker on a machine	11
4.	Handcrafts	11
5.	traction (technicians)	23
6.	traction (manual work)	15

### **(first) Costing System Activity of the Research Sample Company:**

The corporation uses a system of production phases to determine the costs of its products, while occasionally exceptional requests (orders) are carried out by the laboratories in accordance with specific clearances from the company's senior management.

The company's adopted costing system is explained in more detail below:

#### **I- Cost centers:**

The business uses a cost system in which cost centres are established while taking into account the administrative division and the principal division found in the unified accounting system.

A- Production centres: These represent the activities carried out by the company in which

the production factors (machines, materials, and labor) interact to create the finished product.

B- Productive Service Centers: These are the departments and divisions that provide the production centres with the raw materials they need for manufacturing as well as support for storing and maintaining their machines and equipment.

C- Marketing service centers:

These centres include sales agents, marketing management, advertising, inspection, marketing research, export expenses, truck drivers' salary for goods distribution, their expenses, phone charges, and rental fees for exhibition spaces.

D- Administrative Service Centers:

The public administration, as well as its financial and administrative bodies, as well as

the company's bodies for oversight, control, and internal follow-up, are some of these centres. We observe that these organizations' goals are to organize the necessary funding to finance the business's activities and to coordinate between production and marketing.

## 2- Cost Centers Guide:

In light of the primary division found in the unified accounting system, the cost centres guide for the leather garment factory at the Zafaraniya site has been produced, and table (2) displays the cost centres guide.

Table ( 2 ) Directory of production and service centers in the leather clothing factory

Cost center name	Cost center number
production centers	Monitoring ( 5 )

Design and technical management of the laboratory	50707010
separation	50707020
sewing	50707030
sequel	50707040
Productive Service Centers	Monitoring ( 6 )
mechanic	60707010
Raw Materials Store	60707020
marketing centers	Monitoring ( 7 )
Ready-made goods store	70707010
Administrative and financial centers	Monitoring ( 8 )

Administration and services	80707010
Administrative Burden Center	80707020

Source / Directory of Cost Accounts Division in the General Company for Leather Industries

### 3- Elements of costs in the General Company for Leather Industries - Leather Garments Factory :

Materials, salaries, and indirect expenditures are among the cost components. These components are categorized as follows in accordance with the standard accounting system:

#### A. Account of wages and salaries (31):

The salary and pay of the laboratory's staff are included in this statement. According to the real existence in each cost centre, this account is examined on those cost centres. The names of the employees and workers are transferred to the calculator in accordance with the cost centres in accordance with payroll, where information is

supplied regarding the affiliate number, the qualified cost centre, and the name of the employee or worker. In accordance with the pay and wages disbursement report and dispersed in accordance with cost centres, the accounts department publishes monthly lists of salaries.

**B. Account (32) Commodity Requirements:**

This account is broken down into two different categories of sub-accounts, some of which are assigned to the cost centres directly, like the account (321) raw materials and raw materials. According to special reports, inventory accounts create export entries for inventory, and cost accounts examine these constraints on cost centres on the expense analysis form.

The remaining accounts, including the packaging materials account (324), are all the same. The indirect expenses, such as the accounts (322) for gasoline and oils and (327) for water and electricity, are the second type of accounts that cannot be allocated directly.

**C. Account (33) for service requirements:**

Some of its accounts are directly on cost centres, such as account (3313) maintenance of machinery and equipment, so its costs are directly on cost centres, and account (334) transfers workers, so it is directly on the cost centres. The nature of its sub-accounts is indirect, such as account (331) maintenance of buildings and account (3324) maintenance of transportation.

**D. Account (37) depreciation:**

This account consists of things that may be directly attributed to the cost centres and are represented by the wear and tear on equipment, structures, vehicles, and furniture. According to the commonly established machine-to-machine ratios, these costs are documented and charged to the production departments in accordance

with the values of the machines in the factory, or the depreciation of buildings and their upkeep, which are indirect costs on the cost centres. For the remaining assets, it is allocated proportionally to the space taken up by the factory or cost centre, and so on.

**4- Allocation and distribution of indirect industrial costs:**

The following processes make up the compilation and calculation of indirect industrial costs, which are necessary to arrive at the cost of production:

**Step One: Recording Expenses (Inventory of Cost Components)**

Through the documentation that the laboratory's financial department receives, the finance department keeps track of these expenses. These records list the parties involved in the trade and the cost of the outlays. Each entry for these expenses is made in accordance with the type of expense. The cost accounts department receives a copy of these documents. These limitations apply to all amounts paid out, including salaries, wages, allocations, different raw materials, and other indirect costs.

**The second step: analysis of expenses on cost centers (distribution of costs to cost centers)**

This operation is carried out by the cost accounts department, and a copy of the daily entries arranged by the financial department is obtained. The department's staff uses a form created specifically for this purpose to examine the costs at the beneficiary centres (expenses analysis form, adjusting amounts, or modifying an error in posting documents). It is forwarded to the calculator, which will carry it across to the centres and extract monthly results with each center's costs.

There are two categories of these things (uses):

1. Cost components like labor requirements and commodities needs that are directly allocated to certain centres.

2. Components of general and joint costs, which must be distributed to beneficiary centres in accordance with proper distribution bases such depreciation and others by the cost accounts. As

a result, Table can be used to provide an overview of the work performed by the leather clothing factory and how expenditures are allocated across the company's production centres, production departments, and service departments for the year 2021 as shown in table 3.

**Distribution of costs to the supervisors of the leather clothing factory Table (3)**

the details	production centers	(5) Productive Services	(6) Marketing services	(7) Administrative Services	(8) total
Costs	1386,562,37	17694,836	3070380	22535139	1429456592
The center's share of the company's management costs *	-	-	1554260	111,3642	12737902
The center's share of the costs of the Zafaraniya plant**	-	12406315	-	16532567	.28938882
the total	1386,562,37	3010151	4624640	50251348	1471133376

(\*)Means the joint centers with the General Administration that provide their services to the company's sites, including the leather clothing factory

(\*\*) means the joint centers in the Zafaraniya site (large and small tanning and bags)

Table (4)The share of the leather clothing factory from the marketing and administrative costs of the company's headquarters

Marketing Services (70103)	Total Monitoring (7)	Senior management (80101)	People Management (80102)	Accounts (80103)	Department of Material (80104)	total control (8)
1554260	1554260	1050176	1354975	6705363	2073128	11183642
Chemicals Laboratory(60303)	Spare Tool Store(60302)	Transportation Division(60306)	Medicine(60307)	total watch(6)	People Management (80301)	total observation (8)
608779	133687	10481291	1182558	12406315	16532567	16532567

Redistributing the costs of service centres to manufacturing centres is the third phase.

This step involves the transfer of service centre costs to production centre costs in order to build up costs in the production centres. The following expenses are incurred in the production centre:

1. The expenses distributed and allotted to this centre in accordance with the preceding action (2)
2. The center's portion of other service centres' expenses.

Redistributing the costs of service centres to production centres can be done in a number of ways, including:

- A. Gross distribution method
- B. Individual distribution method
- C. Descending distribution method
- D. Cross-distribution method

These techniques for allocating the costs of production service centres all have the same

Table (6) The sum of allotted and allocated costs

Statement	the cost
Total costs of production centers (5)	3386156237
Total costs of service centers (6)	300101151
Total costs of marketing services (7)	40624640
Total administrative services costs ( 8 )	510251348
The sum of allotted and allocated costs	4237133376

The fourth step is to calculate the production share of indirect costs.

Based on historical data and rates prepared for that, the corporation allocates costs (industrial, marketing, and administrative) to production centres as follows:

Industrial expenditure charging rate equals industrial expense (total control expenses (6) production services plus "total entire control production expenses (5) less" h/31 wages and

overall goal: to calculate the price of the production centre with its direct and indirect costs allocated in accordance with one of the techniques stated. The distribution accuracy, fairness, and difficulty of various systems varies, nevertheless.

The third approach (Descending Distribution Method), which parallels correctness and justice on the one hand and the efforts made on the other, is used for distribution purposes in light of the aforementioned factors and is also more frequently used in Iraq.

The business employs the strategy of treating the production and service centres as a single general centre rather than breaking them down into smaller ones.

h/321 direct raw materials) divided by direct wages (paid wages).

Advertising Costs Marketing Expenses = Charging Ratio Total Costs for Monitoring (7) Promotional Services divided by (Direct Wages + Above Extracted Industrial Expenses (\*).

Charging rate of administrative costs is equal to administrative costs (total monitoring costs x 8) divided by (above industrial costs plus direct salaries). \*\* The corporation used the total of

direct wages plus indirect industrial costs to establish the billing rate for marketing expenses.

The two equations that follow state the following:

$$\text{Marketing charge rate} = \frac{\text{Indirect industrial costs} + \text{direct wages}}{\text{Direct wages}}$$

$$\text{Administrative cost charge rate} = \frac{\text{Administrative costs}}{\text{Indirect industrial costs} + \text{direct wages}}$$

They do so in accordance with the recommendations of the Ministry of Industry and Minerals' Economic Department, based on what is stated on page 387 of the Unified Accounting System: Monitoring (7) and (Monitoring 8), but also includes their share of indirect industrial costs (costs of production services centres / Monitoring 6) in terms of the

service centres that these two activities are dependent upon (such as social service centers, maintenance workshops and warehouses).

A table (7) has been created to further explain this in order to demonstrate how to determine the direct and indirect expenses of a particular model of the company's products (the women's wrap).

Table (7)

The costs of the basic model of the female hoodie Ministry of Industry and Minerals General Company for Leather Industries Model: Women's Long Sheep Hood Pricing Form Date

Article details	standard unit	Quantity	price	the value
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			Dinar	fls	Dinar	fls
sheepskin	feet <sup>2</sup>	52	-	1800	-	93600
lining fabric	m <sup>2</sup>	5.2	-	1000	-	2500
epaulettes	Husband	1	186	300	186	300
reinforcement cloth	m <sup>2</sup>	7.0	926	337	548	236
histological mark	Number	1	055	-	055	-
nylon thread	meter	400	940	2148	830	343
latex gum	grumble	100	526	1684	453	168
neoprene gum	grumble	50	690	2998	935	149
Textile tag for lining	Number	1	081	-	081	-
mark made	Number	1	-	77	-	77
measuring label	Number	1	055	-	055	-
Dumpling tray 7 large pieces	Number	5	038	-	190	-
Non-woven lining	m <sup>2</sup>	5.0	832	912	417	456
Dough 7 small pieces	Number	6	035	-	210	-
Total costs					960	97732
wages	It is determined by dividing the monthly wages of workers ÷ the amount of production				-	4500
industrial expenses	It represents 70% of wages				-	3150
Administrative expenses	It represents 67% of wages + industrial m				-	5125
Marketing expenses						
Total production costs					960	110507
Profit margin	It represents an average of about 4% of the costs				040	4492
manufacture price						
selling price					-	115000

Source / records of the General Company for Leather Industries

According to the company's data, the price listed in the table for raw materials corresponds to the weighted rate per unit.

The following scope has been determined from the foregoing:

A - The system is primarily concerned with collecting costs from centres for manufacturing, marketing, and administrative services, but it also uses these costs to determine the prices of finished goods inside the factory.

B - Despite the fact that the system split the plant into production costs centres and production, marketing, and administrative services, it distributed its components and allotted costs to these centres. However, it collected these costs in a single cost complex and created a single charge rate to distribute these centers' costs to production centres and rely on the loading principle. Both correct and subjective.

C - Some bases that have been utilized to distribute indirect production costs are inappropriate and may even be random, thus they need to be focused on and reevaluated.

D- The company's use of total indirect industrial expenses in addition to direct salaries to calculate the marketing cost charge rate, as well as the case with administrative costs, and their rationale for the case, are not persuasive.

Second: the Company's price policy. Research sample:

According to the cost accounts department at the company's headquarters, the prices of the company's products are set in the research sample in accordance with price controls issued by the Economic Department of the Ministry of Industry and Minerals. A pricing form is created

using the technical equation of the model shown in Table (9), which also includes the model's material requirements. Materials used in production, such as raw materials and auxiliary materials, are priced using a weighted average of the prices of such materials in stores, along with wages and costs of production service centres expressed as a percentage of direct wages and costs.

To determine their rates in accordance with the company's pricing policy, some typical models have been chosen. The model planning form is shown in Table (8) along with instructions on how to calculate the technical equation for a long sheepskin female model (which represents the standard quantities of raw materials and raw materials needed to produce a single girdle), and the price of leather clothing for factory products is shown in Table (9). Regarding the profit margin, it is calculated in accordance with rates between (10% and 25%) while following the guidelines endorsed by top management. The pricing committee bases the proportion on the price of the product and the demand for it. It takes a lesser percentage when the cost is high, and a bigger percentage when the cost is low. If the demand for the model is large, a margin of close to 25% is decided, and if the demand is low, the margin is set at low rates to assure suitable prices. Cost and benefit analysis The sales agent commission is added at rates ranging from 10 to 12 percent of the model price. This proportion varies from region to region; it is higher in the southern and northern regions than in the centre regions.

Table (8) Model layout

Factory: leather clothes, model: long sheepskin coat for women Model Form (Technical Formula) Model Number:

No	Subject Name	Unit	Quantity
1.	sheepskin	Foot	52
2.	goatskin	fat2	-
3.	Fabric lining	m2	5.2
4.	Zipper 90 cm	Number	-
5.	Zipper 20 cm	Number	-
6.	Zipper 18 cm	Number	-
7.	Roll Zipper	cm	-
8.	cloud hand	Number	-
9.	8 cm wide plastic	cm	-
10.	Sponge epaulettes	Husband	1
11.	Big capsule punch	Number	-
12.	small plastic tamper	Number	-
13.	Plastic bag for the pocket	Number	-
14.	histological mark	Number	1
15.	reinforcement cloth	m2	7.0
16.	24/3 . nylon thread	meter	400
17.	latex gum	grumble	100
18.	ni brin gum	grumble	50
19.	Textile tag for lining	Number	1
20.	manufacture mark	Number	1
21.	measuring label	Number	1
22.	button tray 7 large pieces	Number	5
23.	Non-woven lining	m2	5.0
24.	button bowl 7 small pieces	Number	6

Source / records of the General Company for Leather Industries - Department of Cost

Table (10) The costs of the basic model of the female hoodie Ministry of Industry and Minerals General Company for Leather Industries

Product name: Men's long sheepskin coat

Model: z/1

Article details	standard unit	Quantity	price		the value	
			Dinar	fiis	Dinar	fiis
sheepskin	feet2	50	400	2036	-	101820
lining fabric	m2	7.2	-	1000	-	2700
Zipper 90 cm	Number	1	429	-	429	-
8 cm wide plastic	M	50 cm	338	837	669	418
epaulettes	Husband	1	690	998	690	998
plastic bruise	Number	1	075	2	075	2
histological mark	Number	1	055	-	055	-
reinforcement cloth	m2	7.0	926	337	548	236
string	M	400	940	2148	830	343
latex gum	grumble	75	526	1648	339	126
neoprene gum	grumble	25	690	2998	967	74
Textile tag for lining	Number	1	-	1	-	1
manufacture mark	Number	1	-	77	-	77
measuring label	Number	1	055	-	055	-
4 piece tray	Number	6	840	82	040	497
Non-woven lining	m2	2.0	834	912	567	182
Total material cost					345	107478
wages	It is determined by dividing the monthly wages of workers ÷ the amount of production				-	4830
industrial expenses	It represents 70% of wages				-	3381
Administrative and marketing expenses	It represents 67% of wages + industrial m				370	5501
Total production costs					715	121190
Profit margin	15% of the costs				285	17809
Make (sale) price					-	139000

Source/ records of the General Company for Leather Industries

From the preceding, it can be seen that the General Company for Leather Industries uses the cost-based pricing approach in addition to a profit margin to set the prices of its products, which necessitates the submission of extremely accurate information when calculating the costs of these goods.

The cost of each model is determined through the technical equation and the pricing form mentioned above, but this does not provide accurate results for costs. The cost determination system in the company in general and the laboratory in particular did not work to determine the costs of each product on the basis of which the products are priced by adding a certain profit margin. As a result, poor decisions are made.

Seventh: Determining a cost vector cost rate

In this stage, the result of each activity is represented by the activity's cost vector quantity, as shown in Table (11).

Ninth: Using activity data to determine the transfer price.

In this section, it will be established how the ABC system's implementation will affect the transfer price and how it will affect the reliability of the cost information used to calculate the product cost. describes how to determine the conversion price depending on activities.

By converting the average number of lashes in feet to dm<sup>2</sup>, the price of one unit of the product was determined. The tanning salon's monthly records revealed that the lashes vary in size, so the salon set a rate of 4.4 feet per skin. The foot was then converted to 9.29 dm<sup>2</sup>, and it was divided in half as a result. To extract the unit cost rate in db<sup>2</sup>, the average router cost per hour was 40.876 (4.4 x 9.29), as shown in Table (11).

**(Table 11  
Activity-based transfer price calculation**

<b>Activity name</b>	<b>Cost prompt</b>	<b>total cost</b>	<b>wave quantity</b>	<b>Average cost per hour</b>	<b>Average cost of fat2</b>
Leather preparation activity	0.68548	41955250	1493100	28.02	0.68548
twist activity	2.09511	38300558	442400	85.64	2.09511

Enlightenment and welding activity	0.89392	24577564	663600	36.54	0.89392
Nora removal activity	12.38697	28023436	55300	506.33	12.38697
fat removal activity	11.04511	19003374	41986	451.48	11.04511
tanning activity	0.86089	22205316	629790	35.19	0.86089
tanning activity	0.97905	17847538	444769	40.02	0.97905
Al-Asr and Al-Fath activity	2.17609	5060586	56779	88.95	2.17609
drying activity	0.96340	4497494	113558	39.38	0.96340
moisturizing activity	2.87625	4950200	37853	117.57	2.87625
smoothing activity	3.82375	4618034	28389	156.30	3.82375
dye activity	0.45234	22262450	1202366	18.49	0.45234
Ancillary services activity	0.03718	1848248	1202366	1.52	0.03718
public service activity	119.73285	1017504	164	4894.20	119.73285
Activity-based transfer price					129334

Source: Prepared by the researcher based on company records.

Due to the identification, analysis, and diagnosis of the activities in this centre and the identification of those that add value and those that do not add value, and because each activity bears the costs it deserves, the application of the ABC system in the tanning centre has thus provided a fair product cost for the center's products. This enables the managers of profitability centres to make the appropriate decisions.

Because of these actions, the transfer price for the small tanning salon that was allowed in the company was reduced to 129,334 as a consequence of the updated cost estimation.

According to the researcher, the company is the research sample in the case of redesigning the manufacturing processes and developing the production stages by introducing modern equipment and providing quick and detailed information about the activities through the use of computers, which provides more accurate information about the activities and their

managements that will lead to lower costs and, as a result, create better competition.

#### **Fourth topic: conclusions and recommendations**

##### **First: the conclusions**

1. The application of the responsibility accounting system increases the economic unit's effectiveness and sufficiency and helps it achieve its overall goals. As a result, the economic units are better able to keep up with the rapid changes taking place across all industries, which forces them to develop their administrative and accounting systems and find quick replacements for the outdated systems that have already shown their limitations.
2. The method of identifying responsibility centres depends on the categories of operations that the person in charge of performance supervises, the scope of the rights and authorities delegated to him, the size of the

economic unit, and other factors. Therefore, the prerequisites for establishing responsibility centres.

3. Through the practical side results, it was discovered that the controlled contribution—the proper notion of evaluation, which would produce a sense of fairness among the managers of responsibility centers—depends on the determination of profits.

4. The ABC system was applied to a small tanning salon in the lab. The research sample provided the cost of a product that was returned to him for the products of the salon as a result of the identification and analysis of the activities in this salon and the diagnosis of those activities that add value and those that do not, and each activity bears the cost it deserves, which aids in the process. to calculate a transfer price using a fair total.

5. The necessity of assessing the performance of the company's responsibility centres, the research sample, as this process yields indications of the performance of these centers' actual reality, which taken together makes up the performance of the firm.

6. Considering that it is preferable to use the current cost that the company can obtain from the market by adhering to scientific and practical methods and in accordance with its available capabilities when evaluating the performance of profit centres and adjusting the values of fixed assets at the modified historical cost.

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